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MARKETING INFORMATION SERIES

NEW YORK MILK

EXPLANATION OF THE
FEDERAL-STATE MARKETING PLAN
CONTAINED IN ORDER NO. 27

This order can become effective only after approval of two-thirds of the producers voting in a referendum and, in conjunction with a New York State order.

Approval of three-fourths of the producers voting in a referendum is required before the New York State order can become effective.



AUG 25 1938

U. S. Department of Agriculture

UNITED STATES
DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
DIVISION OF MARKETING AND MARKETING AGREEMENTS
DAIRY SECTION
WASHINGTON, D. C.

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WHAT CAN BE DONE

The Federal-State program which the dairy industry has requested for the metropolitan New York milk marketing area is designed to:

1. Provide a market-wide program under which all handlers will operate in buying milk from producers.
2. Establish minimum prices which handlers will pay producers for milk according to the use made of it.
3. Assure to all producers a uniform rate of payment on milk sold for the marketing area.
4. Enable each producer to obtain his fair portion of benefits from the fluid milk market, and to bear his equitable share of the market's surplus milk burden.
5. Safeguard the interests of the consumer by stabilizing milk marketing conditions and assuring an adequate supply of wholesome milk which can be sold at reasonable prices.

WHAT CANNOT BE DONE

1. The program cannot control production, nor can it regulate dairymen as producers.
2. The program cannot take over the producer's milk-selling job.
3. The program cannot obtain for producers, over a period of time, more than milk is actually worth in relation to supply and demand conditions.
4. Milk prices to consumers cannot be fixed, nor margins of handlers protected.
5. The program cannot solve all of the problems in the market.

NEW YORK MILK

A Federal-State program for regulating the handling of milk in the New York metropolitan marketing area is now before producers and handlers for final consideration. The Secretary of Agriculture of the United States has tentatively approved a marketing agreement and issued an order which, with an order issued by the New York State Commissioner of Agriculture and Markets, provide for the milk regulatory program. The same provisions are included in both the State and Federal orders.

The New York metropolitan milk marketing area under the program includes the city of New York and the counties of Nassau, Suffolk, and Westchester, all in the State of New York.

Approval by producers is necessary before the Federal-State program can go into effect to regulate the handling of milk in the New York metropolitan marketing area.

The tentatively approved marketing agreement is now before handlers of milk in the New York metropolitan marketing area for signature. A referendum will be held to determine whether producers approve the order issued by the Secretary of Agriculture, which embodies the provisions of the agreement and makes the milk regulatory program for the New York market binding on all handlers in that market.

The marketing agreement and order may go into effect if handlers of more than 50 percent of the milk sold in the marketing area sign the agreement, and if at least two-thirds of the producers whose votes are expressed in the referendum approve the issuance of the order. In the event that the required number of handlers fail to sign the agreement, the order may go into effect with the approval of the President and the two-thirds producer vote.

Purpose of the Program

The marketing agreement program for regulating the handling of milk in the New York metropolitan marketing area is designed to:

1. Establish uniform prices for milk sold by producers to handlers in the metropolitan market;
2. Assure uniform returns to producers for milk sold in the marketing area regardless of the handler to whom the milk was sold or the use made of the milk by the individual handler;
3. Assure each producer a fair share of the fluid milk market; and
4. Provide for the control of surplus milk supplies so that the burden is borne fairly by all producers interested in the metropolitan market, and enable the use of surplus so that it will bring the highest return to producers.

Producers Expressed Views at Hearings

The Federal-State program for the New York metropolitan milk market was considered at a series of public hearings held in various sections of New York State from May 16 to June 8. These hearings, conducted jointly by the Secretary of Agriculture and the New York State Commissioner of Agriculture and Markets, gave the representatives of the thousands of producers who attended opportunity to express their views on the proposal. Handlers and consumers also voiced their opinions and testified at these hearings.

The hearings on the marketing agreement program were called at the request of the Metropolitan Cooperative Milk Producers' Bargaining Agency, Inc., which claims a membership of cooperative organizations representing over 40,000 producers. The proposal was developed by representatives of producers through conferences with cooperative leaders, handlers of milk, and representatives of the Agricultural Adjustment Administration and the New York State Department of Agriculture.

Principal Provisions

The marketing agreement program which is now before producers and handlers for final consideration incorporates changes and suggestions which were made by industry spokesmen and others at the public hearings. No changes have been made in the basic idea of the program.

The main provisions of the program provide for:

1. The selection of a market administrator by the Secretary of Agriculture and the Commissioner of Agriculture and Markets to administer the program;

2. The classification of milk received from producers at handlers' plants into nine classes, according to the use made of that milk;

3. The establishment of minimum prices which handlers are required to pay producers for each class of milk according to its use;

4. A method for determining uniform prices which handlers are to pay producers through the operation of a market-wide pool to assure each producer his fair share of the fluid milk market; and

5. The filing of periodic reports by handlers to the market administrator showing deliveries and tests of milk received from producers and from other sources, the use made of this milk, and payments made to producers. The market administrator is given authority to check and verify the accuracy of all reports made to him by handlers.

Producers to Decide

Whether the Federal-State program for regulating the handling of milk in the New York metropolitan marketing area goes into effect, rests largely with the producers themselves. The decision of producers whose votes are expressed in the referendum to be held will indicate whether dairymen favor the issuance of the order and will determine whether it will be possible to put the order into actual operation.

The order cannot regulate the production of milk, nor can any producer be required to do anything under its provisions. A producer is defined as any person who produces milk which is delivered to a handler at a

plant approved by any health authority in the metropolitan marketing area.

A handler is defined in the order as any person who engages in the handling of milk received at a plant approved by any health authority in the metropolitan marketing area. The definition specifically includes any cooperative association that operates plants or any cooperative association which causes milk to be delivered to plants of handlers and collects payments for such milk. The definition specifically excludes those persons who neither receive milk from producers nor handle milk which is sold in the metropolitan marketing area.

Joint State and Federal Administration

The program would be administered by a market administrator named by the Secretary of Agriculture and the Commissioner of Agriculture and Markets. The market administrator would administer both the Federal and the State orders, thus making it possible for the Federal and State Governments to operate jointly.

The order provides for the selection of the market administrator. It defines his powers and duties. The order requires the market administrator to furnish a bond to guarantee faithful performance of his duties.

The market administrator has the power to administer the terms and provisions of the order and to receive, investigate, and report complaints of violations.

Among his duties the market administrator is required to keep books and records which will clearly reflect the transactions of his office, furnish such information as the Secretary of Agriculture or the Commissioner of Agriculture and Markets may request, and employ such persons as may be necessary to carry on the functions of his office.

The expense of administering the joint Federal-State program would be borne by handlers. Each handler would be required to pay as his pro rata share of the expense of administering the program not more than 2 cents per hundredweight on that total quantity of milk received from producers at his plant which is sold primarily as fluid milk or fluid cream. The exact amount per

hundredweight of milk to be paid would be determined by the market administrator on the basis of what was necessary for administering the program.

Milk Classified According to Use

The order provides that all milk received from producers by handlers must be classified according to its use at, or the form in which milk leaves, the plant where first received from producers with the proviso that if milk is moved as milk from the plant where it was originally received from producers to a second plant outside the marketing area, the classification of such milk at the first plant may be according to its use at the second plant. Any use of milk claimed by a handler would be subject to verification by the market administrator.

Milk received at the plants of handlers would be classified into nine classes so that payments to producers may be made on the basis of the use value of the milk.

Each class of milk is defined in substance as follows:

Class I milk is defined as milk which leaves the plant as whole milk, chocolate milk, or a whole milk drink, or any milk not so accounted for as to be placed in a class lower than class I.

Class II-A milk is all milk the butterfat from which leaves a plant as cream which was not sold as frozen cream, made into ice cream, or shipped to markets in any county where there is no New York approved plant.

Class II-B milk is that milk which furnishes butterfat for plain condensed milk and homogenized mixtures (for ice cream).

Class III-A milk is all milk which supplies butterfat in evaporated milk, sweetened condensed milk, milk chocolate, milk powder, malted milk powder, or any cheese other than cream cheese and American Cheddar cheese.

Class III-B milk is milk which supplies butterfat in frozen cream.

Class III-C milk is milk furnishing butterfat for frozen desserts sold outside of New York City.

Class III-D milk is milk furnishing the butterfat for cream sold outside the New York milkshed and the butterfat in cream cheese.

Class IV-A milk is milk which is manufactured into butter.

Class IV-B milk is milk which is manufactured into American cheese.

The nine classifications for milk which are provided for in the order follow rather closely the classes used by the State of New York in regulating milk since 1933 and the classes used by a large portion of the market for 10 or more years before that time. These use classifications are made necessary by the large territory of the New York milkshed, the wide variations in conditions of production and climate, the great variety of possible manufacturing outlets for milk at times not needed for Class I or Class II-A uses, and the tremendous volume of milk involved in even small proportionate changes in the sales and production of milk in the shed from day to day, week to week, and month to month. These classes, together with the price applicable to each class, are designed to permit all producers' milk to be absorbed in some channel of use at all times in order that it may be available when needed for Class I and Class II-A uses in the market.

Minimum Price for Each Class of Milk

For each of the nine use classifications there is provided in the order a method which will fix the price of milk in each class for each month. The method used is designed to provide flexibility in the pricing of milk so as to recognize seasonal changes in production, general economic conditions, and the level of dairy prices.

The prices prescribed in the order are minimum prices based on milk containing 3.5 percent butterfat received during each month from producers or associations of producers at plants in the 201-210-mile zone from New York City. Differentials are provided for milk received at plants in zones nearer or farther than the 201-210-mile zone from New York City.

The order contains a schedule which prescribes the class I price which handlers would be required to pay from April through July and from August through March. The schedule sets \$2.20 per hundredweight for the 25-34.9-cent butter price

range for the months of April through July, and \$2.65 per hundredweight for the 30-39.9-cent butter price range for the months of August through March. This seasonal movement of the class I price is modified by changes in the price of butter, moving up or down by 20 cents per hundredweight for each 5-cent rise or fall in the average of New York 92-score butter prices for a period of 60 days before each month. The following table is contained in the order and prescribes the butter price range and the class I price to be paid during the different periods:

Butter price range (cents per pound)	Class I price	
	April through July	August through March
	Dollars per cwt.	Dollars per cwt.
Under 20-----	1.80	2.05
20 to 24.9-----	2.00	2.25
25 to 29.9-----	2.20	2.45
30 to 34.9-----	2.20	2.65
35 to 39.9-----	2.40	2.65
40 to 44.9-----	2.60	2.85
45 to 49.9-----	2.80	3.05
Over 49.9-----	3.00	3.25

If an order had become effective August 1, the class I price for August would be \$2.45, since the average of butter prices was in the 25-29.9 cent range.

The method for fixing the class II-A price follows along the same lines as that for fixing the class I price, but it is designed to move the class II-A price more nearly in keeping with changes in the prices of butter. This is done by requiring that the butter price range be determined during the 30 days preceding the 25th of the month before the price would be in effect. In making this determination the average of New York 92-score butter prices would be used. The lowest level of class II-A prices in the same butter price range is set for the months of March through July when production is heaviest, with slight increases for the months of August through October, the highest prices coming during the months of November through February. The following table contained in the order pre-

scribes the butter price range and the class II-A price for the various periods:

Butter price range (cents per pound)	Class II-A price		
	March through July	August through October	November through February
	<i>Dollars per cwt.</i>	<i>Dollars per cwt.</i>	<i>Dollars per cwt.</i>
Under 20-----	1.30	1.35	1.50
20 to 24.9-----	1.50	1.55	1.70
25 to 29.9-----	1.70	1.75	1.90
30 to 34.9-----	1.85	1.90	2.05
35 to 39.9-----	2.00	2.05	2.20
40 to 44.9-----	2.15	2.20	2.35
45 to 49.9-----	2.30	2.35	2.50
Over 49.9-----	2.45	2.50	2.65

If an order had become effective August 1, the class II-A price for August would be \$1.75 per hundredweight since the average of butter prices was in the 25-29.9 cent range. The class II-A price would move to \$1.90 for the month of October if the butter price level moved into the 30-34.9 cent range, and to \$2.05 per hundredweight for November if the butter price level remained the same. From the 25-29.9 cent butter price level the class II-A price moves down 20 cents, or up 15 cents, for each 5-cent change in the butter price level.

Prices for milk in the lower use classifications are established on a basis so as to absorb all the milk not needed for class I and class II-A purposes. These prices are set up so as to enable the manufacturer of products made from these lower classes of milk to compete without undue advantage or disadvantage with the same products made from milk not qualified for the New York market.

The class III-A milk price under the order is to be 10 cents higher than the average of prices paid at 18 evaporated milk plants in the States of Ohio, Michigan, and Wisconsin. The order contains a provision to prevent the class III-A milk price from being less than that price which the market administrator would compute by the following formula: The average price of 92-score butter at wholesale in the Chicago market for the month, plus 30 percent of that average price, times 3.5, plus 7 cents. This formula

approximates that contained in the Federal marketing agreement program in effect for the evaporated milk industry.

The class II-B price is to be 10 cents higher than the class III-A price.

The class IV-A milk price is to be calculated by the market administrator each month from the average of the highest daily prices of 92-score butter at wholesale in the New York market, deducting 4 cents as allowance for manufacturing costs, adding 20 percent of the remainder, and multiplying by 3.5.

The class IV-A milk price is the basis for the class III-B, III-C, and III-D prices, which each month are to be respectively 20 cents, 10 cents, and $7\frac{1}{2}$ cents per hundred-weight higher than the class IV-A price.

The class IV-B price is to be determined by the market administrator on the basis of the average of weekly quotations of cheese per pound at Plymouth, Wis., Gouverneur, N. Y., and Cuba, N. Y., deducting 3 cents as an allowance for manufacturing costs, and multiplying by 9.45, a reasonably expected yield of cheese per hundred pounds of 3.5 percent butterfat milk.

A butterfat differential of 4 cents per one-tenth of one percent butterfat content above or below 3.5 percent is to apply on all class prices except those for class III-A, IV-A, and IV-B. In the case of class III-A, IV-A, and IV-B milk prices, the butterfat differential is to be in direct ratio to the price of milk of 3.5 percent butterfat content.

Handlers Required to Report

Administration of the order by the market administrator is based largely on periodic reports which handlers are required to make. The market administrator is charged with the duty of promptly verifying all reports, and handlers must, under the order, make available to the market administrator records and facilities to enable him to verify their reports and to obtain correct figures in case of errors or omissions.

The most important report which handlers must file with the market administrator is the final monthly report which, in addition to considerable detailed information, shows

the total quantity of milk and the average butterfat content of the milk received from producers and from other sources, and the utilization of the milk at each plant, together with a complete computation of the sum of money which represents the handlers' net cost of milk on the basis of the 201-210 mile zone.

Upon receipt of reports for a month the market administrator is required under the order to audit each report for mathematical correctness and obvious errors. These reports, subject to verification by the market administrator, must be sent to him on the 10th of the month following the month for which the report is made.

The Uniform Price Computation

On the 14th day of the month the market administrator is required to compute the uniform pool price, or blended price, out of all reports in his hands at that time.

For purposes of convenience, the milk of each class to which the minimum prices apply, is known as the "net pooled milk." Class I and Class II-A milk which never enters the marketing area is not included in the net pooled milk. The uniform price is computed by the market administrator upon this net pooled milk in all classes of all handlers.

In computing the uniform pool price from all reports each month, the market administrator is required to deduct payments for services rendered by cooperatives and payments for market services rendered by handlers.

Payments Out of Pool

Payments for services by cooperatives are to be made to those cooperative associations which have been determined by the Secretary of Agriculture as having their entire activities under the control of their members and as being able to render service to producers as a whole by facilitating the delivery of milk to persons at the point where it may be used in the highest possible class and by making available to handlers in need of milk, an adequate supply. These payments would go to producers' cooperatives which exercise control over milk and route milk into the

channels of utilization which net the highest returns to all producers.

Under the order, any cooperative association of producers may apply to the Secretary of Agriculture for determination as to its qualifications to receive the cooperative service payment. If the determination is made in favor of the cooperative, the service payment is to be received by the cooperative until it has been disqualified by the Secretary for failure to exercise the authority and to perform the functions upon which the determination was made.

These payments are to be made at only one of the following rates on net pooled milk dealt with by a cooperative:

One cent per hundredweight of net pooled milk to a cooperative which caused the milk of its members to be delivered to a handler's plant and on which the handler made reports to the market administrator and paid producers as required under the order;

Two and a half cents per hundredweight of net pooled milk to a cooperative which has collected payments for milk delivered to the plant of a handler by its members and which has met its obligations under the order; and

Five cents per hundredweight of net pooled milk to a cooperative which operates plants, is able to take care of all the milk of all its members, and is willing and able to take care of milk from producers who are not members.

Market service payments to handlers would be made for facilitating the utilization of milk in a way so as to benefit all producers sharing in the pool.

During any month except November or December one market service payment would be made to those handlers who move milk from a plant equipped only for receiving and shipping milk to one equipped for manufacturing when it is impossible to move the milk in fluid form. For moving the milk to the manufacturing plant the handler would receive for that service 23 cents per hundredweight of milk so moved, plus a small additional allowance for hauling. No such payment would be made for any month when the manufacturing plant shipped Class I milk to the marketing area if both plants are operated by the same handler.

Another market service payment would be made during November and December to a handler who moved class I milk from a plant which is primarily a manufacturing plant, and who would be entitled to claim this market service payment. This payment is at the

rate of 30 cents per hundredweight of class I milk during these 2 months only, and the manufacturing plant must not have shipped to the marketing area more than 10 percent of its receipts as class I milk nor more than 50 percent as cream during the preceding May and June.

Uniform Pool Prices for Producers

The order requires handlers to pay the uniform pool, or blended, price, calculated by the market administrator, to all producers delivering milk during any month unless the handler has received milk and sold it as class I milk outside of the marketing area. In such an instance the handler is required to pay the uniform price to each producer on that part of the milk received which is equal to the proportion of his milk to which minimum prices are applicable. For the remainder of each producer's milk the handler may pay such prices as he sees fit, but is required to furnish the producer with a statement of the percentage of the producer's milk paid for at the uniform price.

Payment of the uniform price is subject to the butterfat differential of 4 cents per hundredweight for each one-tenth of 1 percent butterfat content above or below 3.5 percent in the milk delivered by each producer and to the transportation and location differentials.

The transportation differential scale is that prescribed in the order to apply to class I milk and is based on the railway tariff for the movement of milk in tank cars.

The location differential amounts to 25 cents per hundredweight to producers who deliver at plants in counties of New York, New Jersey, Connecticut, and Massachusetts, located close to New York City, and separated to a large extent from the rest of the milkshed by mountainous country in which very little, if any, milk is produced. Of this 25 cents paid to producers, the handler is reimbursed 20 cents per hundredweight from the total pool. This leaves a location differential of 5 cents per hundredweight to be paid by the handler.

In addition to the other differentials, handlers are required to pay to producers delivering milk qualified as grade A by the

New York City Department of Health premiums according to butterfat content and bacteria count on that amount of milk actually sold in the marketing area as grade A milk. The premiums range from 78 cents for 4 percent milk having less than 10,000 bacteria count down to 5 cents for 3.7 percent milk containing over 25,000 bacteria count.

A producer settlement fund operated by the market administrator is provided for under the order as a clearing arrangement into which each handler pays the amount by which his net pool obligation is greater than his net pooled milk multiplied by the uniform price, or out of which he is paid the amount by which his net pool obligation is less than his net pooled milk multiplied by the uniform price. Provision is also made for receiving or paying out of the producer settlement fund amounts of money arising out of any errors. Handlers must make payments to producers on or before the 25th day of each month for milk received during the preceding month.

The arrangement which the order prescribes for determining and paying a uniform pool price to producers for milk sold in the marketing area operates under what is commonly termed a market-wide pool plan. Operation of the pool assures all handlers the same cost for milk sold in the marketing area, and for that milk assures payments to all producers at a uniform rate except for the transportation and other differentials provided.



